


2018 City Manager Budget Message

It is with great honor and privilege that I write this budget message as this is my first budget as your City Manager. I hope that you and the community agree that this budget provides the resources so that we can affect lasting and positive change in the community while remaining fiscally responsible.

First and foremost, I must acknowledge the work of the City's Management Team in helping to develop this budget. Many hours are logged by each Department Head to develop a responsible budget that meets the needs of the City. Although the ultimate decisions on what is included or not is my responsibility, I could not complete the task without their input and recommendations. In particular, I would like to thank City Clerk/Treasurer Nancy Abdallah. She put many hours into this budget and I truly appreciate and am grateful for her work and dedication.

It could easily be said that the City Budget is the most important thing that City Council must adopt each year. The budget is the plan for the next year that defines the level of services that we provide our community. Each year we

set the goal of developing a budget that maintains Canandaigua as the Chosen Spot, while also being fiscally responsible and prudent. In doing so, it is easy to reduce all of the services the City provides to numbers and percentages and lose sight of the impact that our City government has on the lives of the residents of the community. As City Officials, we not only need to be fiscally responsible, but we must also think beyond the numbers to consider the value and quality of the services we deliver and how that resonates with the public we serve.



OUR CHALLENGE AND THE DIFFICULT PART OF ANY BUDGET IS FINDING THE BALANCE THAT IMPROVES OR MAINTAINS QUALITY OF LIFE WHILE ALSO REMAINING FISCALLY RESPONSIBLE FOR OUR CURRENT AND FUTURE RESIDENTS

With that said, a lack of focus on the fiscal sustainability of the services we provide and the long term fiscal health of the community can ultimately result in services being cut, decreased quality of life and/or large property tax increases. This task is made even more difficult while facing rising costs with stagnant non-property tax revenues and puts tremendous pressure on the property tax. With this in mind, this recommended budget was developed with the goal of maintaining the services that residents of the City of Canandaigua expect with the aim of making improvements while remaining fiscally responsible.

Important Features of the Budget

Police Department

Under Chief Hedworth's leadership, our police department has aspired to be and been striving toward a customer service and community policing Police Department that is proactive, engaged and visible. What does this mean? It means engaging in community policing events and educational events with local business, schools, community organizations and city residents. It is maintaining foot patrols and bike patrols, in addition to vehicular patrols. It means not simply being a reactive service responding to

911 calls, but also being proactive in crime prevention and drug investigations. Chief Hedworth has done a great job at redirecting the focus and restructuring the police department over the last year. He has requested an additional police officer and an increase in part-time officer hours to not only further the department's focus on community based policing, but also improve the effectiveness of the department.

The driving force behind the requested increase is threefold. First, heroin/opiate addiction as well as other drug related issues, like most of the country, is a growing problem facing the City. Chief Hedworth has been working with all of the local law enforcement agencies in Ontario County and the District Attorney's Office to create and maintain a drug task force, with the goal of creating a multi-jurisdictional, multi-agency approach towards the aggressive identification, investigation, arrest and prosecution of anyone who is contributing to the sale of drugs within Ontario County. The additional manpower will provide the resources to have at least one officer assigned to drug investigations to this task force and allows the department to make drug investigations a full-time effort and priority. Second, recent New York State legislation was passed that will soon require anyone 17 years of age or under to be considered a juvenile or adolescent offender and dealt with through family court. This change will increase the number of juvenile cases and additional manpower will allow the department to provide the appropriate level of attention to these cases and allow other detectives to focus on felony level offenses and drug investigations. Third, the additional personnel resources will provide the ability to participate in many community based programs, such as the Phoenix Program operated by the Salvation Army, after-school programs and summer camp programs. This participation helps facilitate positive interactions with law enforcement and youth and provides a positive role-model.

This recommended budget includes the additional police officer at a cost of approximately \$100,000 with salary and benefits and an increase in part-time officer hours from 1,790 to 2,080 at a cost of \$7,500. These part-time officer hours are split between two part-time officers.

Fire Department

One of the issues that has been a topic of discussion amongst the community this year, since the fire at Nolan's, has been Fire Department staffing. However, Fire Department staffing has been a topic of discussion numerous times, at length, for at least the past ten years. The discussion this year focused on increasing the number of firefighters on-duty from two to four. In order to staff each fire station with two, on-duty firefighters, 24/7, the City would have to double the size of the department from nine to eighteen firefighters at a cost of \$962,367 which would result in an over 20% property tax levy increase when the total allowable property tax levy increase by New York State without an override is 1.91% or \$93,399. If we were to add \$962,367 to this recommended budget, it would look very different and include a tax levy increase of 21.31%, which would result in a tax rate increase of 17.18%. The increase in the City property tax bill for the average single-family home would increase of \$242.93 as opposed to the recommended \$23.48. This increase of on-duty staffing is not financially responsible especially considering the data related to our fire service. From 2007-2016, 91% of the calls responded to did not involve a fire. The national data reflects a similar trend in a decreasing number of structure fires. Further, of the 7% of calls that were for fires, 66% were for confined fires (i.e. a cooking pan fire that is put out on the stove) and 34% were for non-confined fires. On average, during the last ten years (2007-2016), a non-confined fire occurs 1.41 times per month and for residential structures, that number falls to 0.93 per month.

Although increasing the staffing level with professional firefighters is not fiscally responsible nor sustainable, we must continue to strive toward increasing our volunteer ranks and continue to improve working relationships with neighboring departments. This, like the efforts made by the Police Department discussed above, will involve refocusing the Fire Department to be more engaged and visible in the community. To this end, the recommended budget includes the creation of a new position, Deputy Fire Chief. This position will assist Chief Magnera with the implementation of a volunteer recruitment campaign and fire prevention activities, along with day-to-day administrative tasks. Further, the position will allow the Department to provide coverage of four firefighters (Chief, Deputy Chief, and two Firefighters) during the normal business hours when volunteers are less available and able to respond and provides for an incident commander when the Fire Chief is unavailable. The total cost of the Deputy Fire Chief is approximately \$100,000.

Department of Public Works

The Department of Public Works is the City's largest Department and as such accounts for the largest percentage of our annual budget. Nevertheless, our DPW is continually asked to add to their workload without any additional resources. There are several areas that should be discussed as part of the 2018 budget process.

Bulk Waste Collection Program

Several City Council members have expressed the desire to restore the bulk waste collection program, a service that the City has not provided since 2008. By way of background, the bulk waste collection program involved curbside collection of bulk waste items twice per year (spring and fall) and residents were permitted to bring bulk waste directly to the transfer station. The program was reduced in 2009 and 2010 to free disposal of bulk waste at the transfer station for residents and eliminated entirely in 2011. Prior to the program being eliminated, DPW had additional staffing and a fully operational transfer station operated by an independent contractor. At the time, City Management and City Council made very difficult decisions in relation to the budget due to the fiscal reality of the economic downturn that significantly impacted the City's budget and eliminated positions throughout the City, including two positions in the Department of Public Works.

Based on the previous program, we estimate that the effort would require the entire Streets Division of DPW for approximately one month and a request for assistance from other municipal crews and nearly all of the Department's equipment. The previous program produced 480 tons of waste in 2008. To put this tonnage in perspective, 480 tons is equal to about 20% of all of the garbage collected last year. We estimate that the total cost to restore the bulk waste collection program is approximately \$137,528. This estimate includes \$86,528 of DPW labor and \$13,000 in equipment usage, \$18,000 for disposal and \$20,000 for the construction of a transfer facility to house roll-off dumpsters and prevent unwanted dumping. The restoration of the program would result less construction and maintenance activities such as repaving streets, installing sidewalks, rebuilding catch basins and storm sewers, etc. As such, this recommended budget does not include the restoration of the program.

Since 2008, non-property tax revenue has remained stagnant and New York State enacted the Tax Cap. It extremely difficult to add services such as the bulk waste collection program without a significant impact to existing services as outlined above or a property tax levy that exceeds the Tax Cap. Further, the Ontario County landfill will be closing in 2028 and we are challenged with reducing waste and increase the amount that is recycled. In regard to bulk waste both the Salvation Army and Habitat for

Humanity provide a pick-up service for bulk items that can be reused. This is not the only option of residents to discard bulk items. Residents can dispose of bulk waste utilizing the Town transfer station on the second and fourth Saturdays of each month. As part of our shared services efforts, the City and Town have begun to explore how this service can be expanded for City residents.

Parks Maintenance

Our Parks Maintenance staff is responsible for managing the City's 13 parks, urban forest (over 4,500 public trees), rain gardens and landscape beds and landscaping around all other public facilities. The work load, through private development improvements of public property (additional landscape beds), investments in new park facilities/amenities and increased usage of our parks, of the Park's Maintenance staff continues to increase without additional resources They will also be responsible for the 14th park, the dog park, once it is constructed. While the increased use of the City's parks is positive and additional landscape beds help to provide a unique character and beatify the community, it also indicates a potential need for additional staffing as the workload increases. Further, our urban forest is demanding and the community is expressing a need for more proactive management of the urban forest. Maintaining our parks, urban forest, landscape beds and rain gardens is not only vital to maintaining and improving the City's quality of life, but also our economic development efforts.

Additionally, balancing effective weed and pest management, the demand for well-manicured landscapes, weed and pest free athletic fields and the mandates to protect and conserve our natural resources is a tough endeavor that will strain our resources, specifically, staffing, equipment needs, and funding for materials and testing. According to the National Recreation and Park Association, 66% of park and recreation agencies follow Integrated Pest Management (IPM) practices for sustainable turf management. Most pesticides reduction strategies involve some form of IPM and there is little information available on effective turf management practices without the use of pesticides or herbicides. As such, a budget amendment was presented at the October 26, 2017 Finance/Budget Committee to appropriate \$15,000 to retain the services of an expert to assist in developing a turf management program utilizing alternative practices and performing the necessary soil tests/analysis. It should be noted that based on initial research alternative practices can increase maintenance costs by 25% in terms of labor and supplies. The recommended budget does not include any additional staffing, equipment, or funding for materials; however, once this study is complete, we will have a better understanding of the resources necessary to maintain our parks to the level that the community demands without the use of pesticides or herbicides.

Staffing

Some have called it the "Silver Wave" when referencing the large amount of expected retirements in the near future across the country in both the public and private sectors. The City of Canandaigua, especially, the DPW is no different. Nearly 25% of our DPW staff is anticipated to retire in the next five (5) years. The amount of institutional knowledge that provides guidance to the work that our DPW crews perform daily and its importance and value is unmeasurable. Its loss is expected to negatively impact the DPW. This is an issue that we will be trying to mitigate and plan for in the coming years.

Administrative Assistance

This planning starts in this recommended budget with the inclusion of a conversion of a part-time position into a full-time position. Currently, the DPW Administration consists of the Director of Public Works, Coordinator of Public Works, an engineering technician, a senior typist/clerk (Laura Cirillo) and

a part-time receptionist/typist (Joyce Crudele). With the retirement of Joyce Crudele in early 2018 and the anticipated retirement of Laura Cirillo the following year, succession planning is necessary. I should note that Laura is the longest tenured employee with the City, having worked here for 37 years. The conversation of this position is budgeted to cost an additional \$51,266 in salary and benefits. This not only addresses succession planning, but also a need for more administrative assistance as DPW continues its efforts to increase proactive communication with the community and complete the increasing day-to-day workload.

Building Maintenance Mechanic

DPW is charged with maintenance of the City's buildings and grounds and there has never been a person charged with managing the maintenance of the City's facilities. The work has been divided over many individuals and across different divisions of DPW. As a result, building maintenance is both inefficient and less effective and ultimately a short coming in DPW. A request to create a Building Maintenance Mechanic position that would be the point of contact for all City employees who identify a building maintenance item, track, manage and perform routine maintenance activities, and be responsible for all maintenance contracts for items such as elevators, HVAC, and fire alarms. This position was not included as part of the recommended budget as we plan to review different organizational methods to complete the work and maintain our facilities.

Public Utility Maintenance Assistant (PUMA)

PUMAs are charged with maintaining the City's water distribution system, sewage collection system and the City's street lighting. All three of these systems are expanding due to the significant private development (Covington Phase III, the Cottages, Pinnacle North, Lableon, Lisk Redevelopment, Canandaigua Finger Lakes Resort) occurring in the City and the planned purchase and conversion of all streetlights in the City to LEDs. With that said how the streetlighting will be maintained has not yet been determined, i.e. contractor, City staff, or a shared service arrangement. Further, the cost of maintaining streetlighting is included as part of the performance contract that we are utilizing to complete the projects and the costs would be budget neutral. As such, there will be budget amendments resulting from the streetlighting project sometime in early 2018.

Motor Equipment Operator – Streets Bureau or Mechanic/Operator – Central Garage

The streets bureau is charged with maintenance of the streets, sidewalks, storm sewers and solid waste and recycling collection. Each new home built in the City on a public street adds incrementally to the workload in the form of increased land miles to plow in the winter and additional stops for garbage and recycling crews. This position was not included in the recommended budget.

Several years ago, a feasibility study was completed that reviewed the possibility of combining the Ontario county DPW Central Garage, the Canandaigua City School District Maintenance Garage and the City's Central Garage. This feasibility study concluded that there was not an opportunity for savings or efficiencies by pursuing this consolidation. It did however state that the workload of the City's Central Garage warranted 2.5 full-time mechanics and a supervisor. Hiring a part-time mechanic is problematic as individuals with the skill set that we require are highly employable and not inclined to only work part-time. Although, DPW requested an additional position, we will instead be pursuing the creation of a Mechanic/Operator position and reassigning the work currently completed by the person that operates the street sweeper. This will provide the additional support necessary in the Central Garage without

significantly impacting the operations of the Streets Bureau. This is a budget neutral re-organization, but is part of the overall staffing discussion.

Strategic Planning

With all due respect to the current Strategic Plan, it is time to take a fresh look and start a new comprehensive strategic plan. There have been many changes within the community and amongst City Council and City Staff since the development of the previous plan. For an effective plan, we must identify and analyze the community's strengths, weaknesses, opportunities, and challenges to develop goals, objectives and strategies that build on strengths, correct weaknesses, take advantage of opportunities and deal, as best as can be done, with challenges. To do this, the recommended budget includes \$18,500 to complete a National Citizens Survey (NCS) for the City of Canandaigua. This survey tool which is endorsed by the International City/County Management Association (ICMA) and the National League of Cities (NLC), is a scientific survey to gather resident opinion on eight key areas of community livability (safety; mobility; natural environment; built environment; economy; recreation and wellness; education and enrichment; and community engagement). The survey can also include customized questions and reporting options to address specific needs. The funding also provides for a half-day interactive workshop administered by a representative from the National Research Center to help develop the strategic plan and offer recommendations.

One of our core values is responsive, participatory governance and through this process we will ensure that the Strategic Plan is representative of the communities shared, long-run and collective interests, and is developed collectively to determine how the City should move forward and invest its limited resources. Additionally, utilizing the NCS will help us develop a Strategic Plan that will help to improve service delivery, strengthen communication and identify clear priorities by measuring service performance, assessing community needs, and evaluating potential policies and/or community characteristics.

Lastly, according to the Pew Research Center, trust in government remains near historic lows with only 20% of Americans saying they trust the federal government to do what is right always or most of the time. A recent Siena poll found similar results with only 28% trusting the federal or state government to do the right thing and 27% and 30% say that the federal and state governments respectively are doing a good or excellent job. But what about trust in local government? Forty-three percent (43%) trust their local government most or all of the time and 42% believe that local government is doing a good or excellent job. Naturally one wonders how the residents of Canandaigua would respond. The NCS will answer that question, and will increase the level of trust from the community in our governance as we continue to provide a participatory and responsive governance.

Non-Union Health Benefits

The City is a member of the Finger Lakes Municipal Health Insurance Trust (FLMHIT) which consists of 18 municipal entities and has helped to contain health insurance costs. Non-Union employees, Department of Public Works and Parks and Recreation Association (union), and Gold Badge Club (union for Police Sergeants and Lieutenant) have plans offered under FLMHIT. The other units (Police Benevolent Association and Fire Fighters Association) have different benefits plans per their collective bargaining agreements. Making changes to health plans in the City requires agreement from unions during the collective bargaining process, except for non-union employees. Traditionally, non-union employee benefits have been similar to those provided in the collective bargaining agreements; however,

the City has the right to make changes. This budget includes the mandated switch of non-union employees to a high deductible health plan. This change will not negatively impact employees as the change includes funding an H.S.A. for the full out-of-pocket maximum in the first year. With this change, the City will save approximately \$40,000 in the General Fund, \$6,000 in the Water Fund and \$2,500 in the Sewer Fund. It will also result in savings for employees as well as the contribution rate for non-union employees will also increase and the impact of the contribution increase is lessened by a lower premium plan.

Revenues and Expenditures

Revenues

New York State's Impact

As you know, New York State acted to control the growth of property taxes in New York State, but has failed to act on its impacts on local property tax levies. To discuss all of the unfunded State mandates and State actions that significantly impact local governments could consume more pages than our entire budget. As such, I will focus on only two issues that could be addressed in the next State budget and would positively impact the City's fiscal position.

Arterial Maintenance

Since its inception in 1951, the arterial maintenance agreement has been an effective and efficient model for maintenance of New York State roadways. The agreement relieves the State of its maintenance responsibilities and provides municipalities a certain amount of autonomy in handling the how and when the roads are maintained. It is one of the best examples of shared services in the State; however, the State has not increased the reimbursement rate since 1987. The costs of street cleaning, snow and ice control, pothole patching, signage and pavement markings has not remained constant since 1987 and it is another example of the State negatively impacting its municipalities fiscal health. Shared service agreements can only be successful when all parties involved receive meaningful benefits in return. If the current reimbursement rate of \$0.85 per square yard of pavement was increased by the Consumer Price Index (CPI) for the time period since 1987, the new rate would be \$1.77. This would result in approximately \$150,000 for the City of Canandaigua.

AIM Funding

Aid and Incentive for Municipalities (AIM) is state aid provided to all New York's cities, towns and villages. The original revenue sharing formula was intended to redistribute state tax revenues to municipalities that do not have the tax base or the taxing authority to generate revenues on their own; however, the formula has been ignored and AIM funding has continually been cut by the State. AIM funding in the New York State budget was \$1.1 billion in 1988/1989 and was cut by approximately 50% between 1988 and 1993. These decreases have put tremendous pressure on local property taxes to support essential municipal services. When AIM funding was increased, the growth in property tax levies remained under the cost-of-living. AIM funding was reduced for the City of Canandaigua by \$73,486 from 2009 to 2010 and another \$22,843 in 2011 and has been \$1,119,304 since.

Revenues – 2018 Recommended Budget

The best practice in budgeting is to budget revenues conservatively and this budget does just that. When we are too aggressive with revenues and fall short, we set ourselves up for budget and fiscal disaster. There are a number of municipalities that can be looked at as examples. Total revenues increased by

\$312,558 which is from three main sources, sales tax, solar array revenue and the property tax levy. There are various other revenues that have gone up or down that are mostly accompanied by decreases in expenditures or were adjusted based on the actual revues achieved in previous years. These can be discussed in more detail during the budget presentation.

Sales Tax

Sales tax revenue accounts for 33% of the total revenue and has been performing better than budgeted this year. However, we must fight the urge to increase this revenue line in our budget by too great of an extent as it might come back to haunt us as it did in 2016 when it was significantly underbudget. The 2018 recommended budget includes a reasonable 2% increase in sales tax revenues or a growth of \$87,427 from \$4,371,354 to \$4,458,781.

Solar Array Revenue

New to the budget is revenue from the solar array. The solar array has been producing kWh of electricity for the City since December 2016. If you recall, we did not include any funds in the 2017 Budget, as we wanted to gain experience so we could have a better understanding of the expected revenues. This recommended budget includes \$526,577 in “new” revenue received in the form of credits from Rochester Gas and Electric as payment for kWh produced by the solar arrays. This revenue is offset by \$466,577 spent to purchase the electricity from the solar arrays via a Power Purchase Agreement resulting in a net gain of \$60,000. In addition to the budgetary benefits of the solar array, the solar arrays cover 94% of the City’s facilities electric usage which has resulted in the City’s greenhouse gas emissions from its facilities being reduced by nearly 80%.



TAX LEVY INCREASE: \$93,479
1.89% INCREASE
TAX RATE: \$6.926
1.61% DECREASE

Property Tax Levy

The recommended budget increases the property tax levy by the full amount allowable by the New York State Tax Cap of 1.89% or \$93,479. This levy increase results in a property tax rate of \$6.926 per \$1,000 of assessed value which is a 1.60% decrease from the 2017 tax rate of \$7.039. The average single-family home increased in assessed

value from \$160,000 to \$166,000 and will have an increase in property tax totaling \$23.48 from \$1,126.24 (7.039×160) to \$1,149.72 (6.926×166).

BID Assessment

The BID has been an important partner for economic development and works continuously to recruit and assist businesses Downtown. In the last several budgets, the property tax levy for the BID has increased by the growth factor percentage determined by New York State as part of the New York State Tax Cap formula. Due to the larger requested increase, the recommended budget raises the property tax levy for the BID by the maximum permissible by New York State law \$1,972.

Fund Balance

The recommended budget includes a Fund Balance appropriation of \$475,529 which is a decrease of \$15,441 from the appropriation in the 2017 Budget of \$490,970. Due mostly to several personnel changes that occurred this year, minimal use of budget contingency, solar array revenue and mortgage

tax revenue, we are projecting that the 2017 appropriation will be \$59,497 or \$431,473 less than budgeted, resulting in a Fund Balance of \$4,003,599. The appropriation of \$475,529 is in compliance with the City's Fund Balance Policy which requires that the Fund Balance have two to three months of operating expenses which is a range of \$2,409,207 to \$3,613,811. With this appropriation and based on the 2017 budget projections the Fund Balance will be \$3,528,155 which is 2.93 months.

Expenditures

In summary, this budget recommends general fund expenditures totaling \$14,455,242 which is an increase of \$766,442 or 5.60% from the 2017 Adopted Budget of \$13,688,800. The majority (61%) of this increase is a result of adding the solar array revenue and expenditures to the budget. If the \$466,577 in expense related to the solar array is removed the increase is \$299,865 or 2.19% over the 2017 Adopted Budget.

Capital Projects

This budget continues the fiscally prudent plan of transferring \$850,000 from the General Fund to the Capital Reserve to plan for current and future capital expenditures. We should thank our predecessors for establishing the Capital Reserve and committing to fund it by \$850,000 each year. This prevents the budget from being on a roller coaster from year to year and ensures that the City maintains its capital.

In summary, the recommended budget involves \$1,513,575 in equipment, facilities maintenance, vehicles/trucks, and infrastructure funded by a transfer of \$1,096,705 from the Capital Reserve, \$20,000 from the Kershaw Park Reserve, \$15,000 from the Cemetery Reserve, and \$381,870 from grants, donations and CHIPS.

The complete Capital Budget and Plan is included as part of this recommended budget; however, I would like to note a few projects.

Body-Worn Cameras

Due to the capital expense involved and the numerous different options available, earlier this year, the Police Department commenced a PILOT program to test different body-worn cameras. The program involved a handful of officers utilizing different body-worn cameras in the field, to aid in our determination as to which camera and associated software would work best for the City. This recommended budget includes funding to equip the Police Department with body-worn cameras. Body-worn cameras will strengthen accountability and transparency, resolve questions following interactions between officers and the public, provide a valuable new type of evidence and assist in training.

Dog Park

We have been working for several years to develop a dog park within the City and purchased property at 97 Buffalo Street last year for this purpose. Unfortunately, the grant that we applied for last year to help facilitate this development was not awarded. We did rewrite the grant and submitted again this year. The recommended budget includes funding from this grant; however, we will not know if it will be awarded to the City until December 2017. The other portion of the dog park funding is from donations being solicited by the Canandaigua Canine Campus.

Enterprise Funds – Water and Sewer

The Water Fund and Sewer Funds are independent of the General Fund and are Enterprise Funds. Each operates as a business and must generate sufficient revenues to pay its own expenses. The primary revenue sources for both funds is the rate charged for usage, based on metered water consumption.

Water Fund

It rained everyday this summer, well, at least it felt like it. When our area experiences a “wet” season, the amount of water consumption decreases and this year has been no different. We are projecting an 11.81% decrease in water from last year which is approximately 178 million gallons of water. What this means is that revenues are not meeting budget. The projected deficit for the Water Fund is \$423,002 for 2017. We budgeted a deficit of \$203,000. The variable of water consumption is very depended on the weather and it makes the Water Fund susceptible to years like this, especially as not much can be done to limit expenditures as the plant must continue to operate to ensure that clean potable water will be available when residents turn on the faucet. Expenditures to operate our Water Treatment Plant are projected to increase only 1.73% from 2016 (2017 Projection:2016 Actual).

The City supplies water to the Towns of Canandaigua, Farmington, Hopewell, and Manchester and the Village of Manchester. There is a complex formula that determines the whole sale water rate that these municipalities pay on an annual basis. In summary this formula is extremely dependent on water consumption. The formula utilizes the prior year’s actual expenses and the volume of water produced as a water denominator. The final rate is set in February when all prior year costs are known. When water consumption increases, the rate decreases and the whole sale rate has done just that for these municipalities over the last several years. However, this year the 11.81% decrease in water consumption is projected to result in a 17.28% increase in the whole sale rate from \$1.918 per 1,000 gallons to \$2.193 per 1,000 gallons. It should be noted that this is a whole sale rate and is not the final rate that residents of these municipalities ultimately pay. An amount is added by each municipality to account for the costs in maintaining the water distribution systems in their municipalities.

For City residents, the recommended budget includes at 3.00% increase of the water rate which would increase the rate from \$3.22 to \$3.317. The minimum bill which includes the first 11,200 gallons of water per quarter would increase from \$36.06 to \$37.15. The driving force of this increase is to account for lower consumption. The budget also includes a \$78,250 appropriation of Fund Balance. Expenditures in the 2018 budget are 11.28% lower than the 2017 budget decreasing to \$3,994,021 from \$4,501,754.

Sewer Fund

The primary revenue sources in the Sewer Fund are the usage rate charged to City customers (which is based on their metered water use), revenue from the County sewer districts that send their wastewater to our plant and share proportionally in the operational costs through an intermunicipal agreement, and payments for the processing of liquid waste that is trucked to the plant from various sources by private haulers. The County also shares in the cost of capital improvements to the sewer treatment plant and the debt service payments for capital projects.

Although the Sewer Funds primary revenue source is the usage rate, it was not as deeply impacted like the Water Fund. We are projecting that the Sewer Fund will end the year with a budget surplus of \$22,638. Further, the recommended budget includes an increase in Sewer Fund expenditures of \$38,927

which is a 1.19% increase from \$3,284,585 to \$3,323,512. As a result, this recommended budget does not include a change in the sewer rate. The sewer rate will remain at \$4.00 per 1,000 gallons with a minimum bill of \$44.80.

Conclusion

Our challenge and the difficult part of any budget is finding the balance between quality of life and fiscal responsibility. I believe that this recommended budget strikes that balance will maintain quality of life while remaining fiscally responsible for our current and future residents. With that said, the budget, as those in the past, depends on a fund balance appropriation, which means that there is a fundamental and structural imbalance in the budget. This flaw has been in our budget for years, but must always be on our minds. There are only a few methods to resolve this flaw: cut services and decrease expenditures or raise revenues (property tax). This recommended budget reduces the amount of appropriated fund balance for the first time in several years and our strong fiscal position, provides us time, but we must always be on the lookout for efficiencies, new revenues and continually review and discuss the level of services that our community desires.

Pursuant to our City Charter, I respectfully submit for your consideration and adoption the City Manager's Recommended Budget for 2018.

A handwritten signature in black ink, appearing to read 'JDG', is positioned above the printed name of the City Manager.

John D. Goodwin
City Manager